

B U S I N E S S S I T U A T I O N

This article was prepared by Larry R. Moran, Daniel Larkins, Ralph W. Morris, Deborah Y. Sieff, and Laura M. Bilenki.

REAL GROSS domestic product (GDP) increased 1.6 percent in the second quarter of 1998, according to the "preliminary" estimates of the national income and product accounts (NIPA's), after increasing 5.5 percent in the first quarter (table 1 and chart 1); the "advance" NIPA estimate of real GDP, reported in the August "Business Situation," had shown a 1.4-percent second-quarter increase.¹ The small upward revision to real GDP reflected a downward revision to imports, which are subtracted in the calcu-

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates unless otherwise specified. Quarterly-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars, and price indexes are chain-type indexes.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

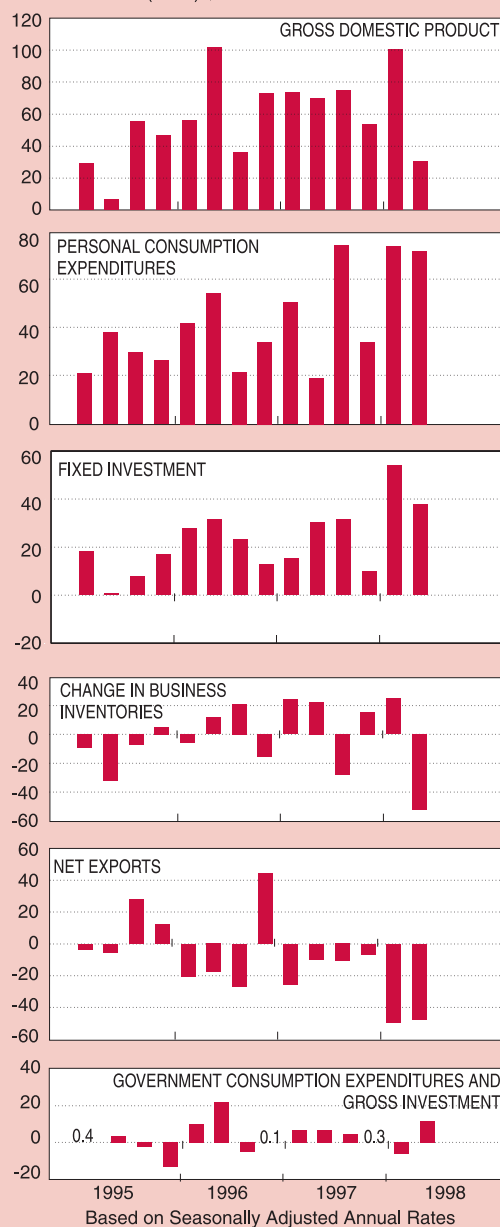
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1997		1998	
	1998		1997						
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	7,494.9	74.7	53.4	100.1	30.2	4.2	3.0	5.5	1.6
Less: Exports of goods and services	972.9	24.5	10.7	-6.9	-19.0	10.6	4.4	-2.8	-7.4
Plus: Imports of goods and services	1,219.2	35.3	17.3	42.6	28.8	13.5	6.3	15.7	10.0
Equals: Gross domestic purchases	7,715.7	83.7	59.0	142.8	70.8	4.6	3.2	7.8	3.8
Less: Change in business inventories	39.1	-28.0	15.5	24.9	-52.3	.....	.....	.....	.....
Nonfarm	30.7	-28.1	18.7	23.2	-55.2	.....	.....	.....	.....
Farm	8.8	28.8	3.8	52.4	31.4	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,672.7	109.7	44.1	120.1	120.5	6.2	2.4	6.6	6.5
Personal consumption expenditures	5,127.3	74.3	34.0	74.1	72.2	6.2	2.8	6.1	5.8
Durable goods	729.1	25.8	5.2	25.5	18.8	16.8	3.1	15.8	11.1
Nondurable goods	1,539.7	18.6	-1.4	26.9	18.5	5.1	-4	7.4	5.0
Services	2,865.3	31.8	29.4	24.5	36.0	4.7	4.3	3.5	5.2
Gross private domestic fixed investment	1,263.5	32.3	10.2	55.4	38.6	12.0	3.6	20.4	13.2
Nonresidential fixed investment	959.9	34.0	4.0	45.7	28.0	17.0	1.8	22.2	12.6
Structures	202.3	5.9	.5	-2.6	-8	12.4	.9	-4.9	-1.6
Producers' durable equipment	770.2	28.8	3.8	52.4	31.4	18.8	2.2	34.3	18.1
Residential investment	309.0	-2	5.6	10.6	10.5	-4	8.2	15.6	14.8
Government consumption expenditures and gross investment	1,294.6	4.5	.3	-6.2	11.6	1.4	.1	-1.9	3.6
Federal	453.4	-1.5	-2.4	-10.4	7.3	-1.2	-2.1	-8.8	6.6
National defense	300.1	-1.5	-1.5	-15.4	6.8	-1.8	-2.0	-18.5	9.5
Nondefense	152.5	0	-9	4.6	.6	-1	-2.3	13.1	1.5
State and local	841.4	5.9	2.8	4.2	4.3	2.9	1.3	2.1	2.1
Addendum: Final sales of domestic product	7,451.9	100.8	38.5	77.7	79.4	5.8	2.1	4.3	4.4

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals that measure the extent of nonadditivity in each table are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1. Contributions of the major components to the quarter-to-quarter percent change in real GDP are in table 8.2.

CHART 1

Real Product: Change from Preceding Quarter

Billion chained (1992) \$



U.S. Department of Commerce, Bureau of Economic Analysis

lation of GDP, and a number of small upward revisions to other components that were partly offset by a downward revision to inventory investment. (The sources of the revisions are discussed in the "Revisions" section.)

The picture of the economy presented by the preliminary estimates is little changed from that presented by the advance estimates. Like the advance estimates, the preliminary estimates showed the following:

- Real GDP growth decelerated sharply in the second quarter.
- The deceleration in real GDP was more than accounted for by a downturn in inventory investment and by a slowdown in business spending for equipment.
- A strike at a motor vehicle manufacturer, which began June 5 and continued through the end of the July, probably reduced second-quarter GDP growth by 0.5–1.0 percentage point.²

In addition, the preliminary estimates show real gross domestic purchases increased about half as much as in the first quarter, and real final sales of domestic product increased about the

same in both quarters.³ According to the preliminary estimates, real gross domestic purchases increased 3.8 percent after increasing 7.8 percent, and real final sales of domestic product increased 4.4 percent after increasing 4.3 percent.

The price index for gross domestic purchases increased 0.4 percent in the second quarter after edging down 0.2 percent in the first. The price index for GDP increased 0.8 percent after increasing 0.9 percent. The larger second-quarter increase in GDP prices than in gross domestic purchases prices was due to a larger decrease in the prices of imports than in the prices of exports; import prices are included in gross domestic purchases prices but not in GDP prices, and export prices are included in GDP prices but not in gross domestic purchases prices.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 5.8 percent in the second quarter after increasing 6.1 percent in the first (table 2). The second-quarter increase continues a pattern of strong growth that began in the first quarter of 1997 after more modest growth in 1995 and 1996. Over the past six quarters, real PCE increased at

2. The low end of this range reflects the strike's effect on just motor vehicle production; the estimate of that effect was based on a difference of about 190,000 units between production schedules published before the strike and the reported production of automobiles and light trucks. The high end of this range also reflects the strike's effect on the production of other businesses, such as those that provide raw materials for the motor vehicle industry. The components of GDP that were probably affected by the strike include inventory investment, exports, and imports.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as GDP less exports of goods and services plus imports of goods and services. Final sales of domestic product is calculated as GDP less the change in business inventories.

Table 2.—Real Personal Consumption Expenditures

(Seasonally adjusted at annual rates)

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1997		1998	
	1998	1997	1998						
	II	III	IV	I	II	III	IV	I	II
Personal consumption expenditures	5,127.3	74.3	34.0	74.1	72.2	6.2	2.8	6.1	5.8
Durable goods	729.1	25.8	5.2	25.5	18.8	16.8	3.1	15.8	11.1
Motor vehicles and parts	258.9	13.6	-1.7	5.1	11.1	25.8	-2.7	8.6	19.2
Of which: New autos	85.7	7.0	-2.1	1.4	5.3	43.1	-9.9	7.4	29.1
New trucks	71.0	5.5	1.9	.8	6.6	45.6	13.0	4.7	48.4
Furniture and household equipment	339.0	9.0	5.4	17.7	3.2	12.4	7.1	24.1	3.9
Other	138.6	2.6	2.3	4.3	3.5	8.8	7.3	13.9	10.6
Nondurable goods	1,539.7	18.6	-1.4	26.9	18.5	5.1	-4	7.4	5.0
Food	715.7	3.3	-7	6.9	8.9	1.9	-4	4.0	5.1
Clothing and shoes	311.3	8.6	.4	15.1	3.9	12.7	.6	22.2	5.2
Gasoline and oil	118.1	.1	-3	.4	-4	.4	-1.0	1.4	-1.2
Fuel oil and coal	9.7	.3	-6	-9	.5	8.5	-20.4	-29.7	22.6
Other	389.0	7.1	-2	6.7	5.5	8.0	-3	7.4	5.8
Services	2,865.3	31.8	29.4	24.5	36.0	4.7	4.3	3.5	5.2
Housing	732.7	4.4	4.4	4.8	4.0	2.5	2.5	2.7	2.2
Household operation	315.2	7.2	6.1	-4.8	8.9	10.1	8.2	-6.0	12.2
Electricity and gas	116.6	1.2	1.2	-7.9	6.1	3.9	4.3	-24.2	24.2
Other household operation	198.4	6.1	4.8	3.1	2.8	14.1	10.7	6.5	5.9
Transportation	222.5	3.0	2.2	2.0	4.6	5.9	4.2	3.7	8.7
Medical care	720.7	5.6	5.2	5.5	5.8	3.2	3.0	3.1	3.3
Other	876.3	11.8	11.8	16.3	13.4	5.8	5.8	7.9	6.4

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 2.3, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

an annual rate of 4.5 percent, compared with a 2.9-percent rate over the preceding 2 years.

The recent strength in real PCE reflects strength in several of the factors usually considered in analyses of consumer spending (chart 2). Since the fourth quarter of 1996, real disposable personal income has increased at an annual rate of 3.1 percent, compared with a 2.4-percent rate over the preceding 2 years. The unemployment rate fell to 4.4 percent in the second quarter of 1998—the lowest rate in more than 25 years—from 5.3 percent in the fourth quarter of 1996; 2 years before that, the unemployment rate had been 5.6 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) averaged 104.5 over the past six quarters after averaging 92.9 over the preceding 2 years. In addition, consumer spending may have been stimulated by increases in recent years in consumer wealth that largely reflected increases in stock market prices.

In the second quarter, expenditures for durable goods and for nondurable goods

slowed somewhat, and expenditures for services accelerated.

Expenditures for durable goods increased 11.1 percent in the second quarter after increasing 15.8 percent in the first. The slowdown was more than accounted for by furniture and household equipment, which increased moderately after a surge in the first quarter; consumer electronics, which includes computers, accounted for more than half of the slowdown in furniture and equipment. Motor vehicles and parts increased more than in the first quarter; the acceleration was more than accounted for by new autos and new trucks, as net purchases of used autos decreased after increasing.⁴

Expenditures for nondurable goods increased 5.0 percent after increasing 7.4 percent. The slowdown was more than accounted for by clothing and shoes.

Expenditures for services increased 5.2 percent after increasing 3.5 percent. The acceleration reflected an upturn in household operation—mainly in electricity and gas—that was weather related; stronger-than-normal demand for air conditioning in the second quarter followed weaker-than-normal demand for heating services in the first. In addition, transportation services increased more than in the first quarter.

Nonresidential fixed investment

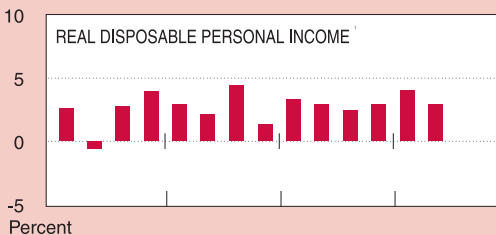
Real private nonresidential fixed investment increased 12.6 percent in the second quarter after jumping 22.2 percent in the first (table 3). The slowdown was more than accounted for by producers' durable equipment (PDE), which, though still strong, increased only half as much as in the first quarter; structures decreased less than in the first quarter.

The slowdown in nonresidential fixed investment may have reflected a weakening in some of the factors that affect investment spending. Over the past four quarters, the capacity utilization rate in manufacturing declined to 80.8 percent from 81.4 percent, and domestic corporate profits increased only 1.5 percent. Other factors remained strong: Over the past four quarters, real final sales of domestic product increased 4.1 percent, and long-term interest rates decreased—for example, the yield on high-grade corporate bonds decreased to 6.55 percent from 7.88 percent.

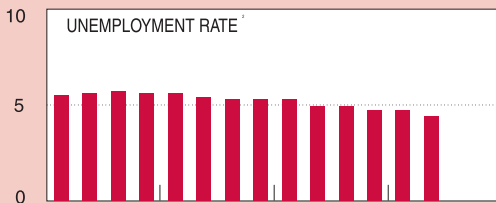
CHART 2

Selected Factors Affecting Consumer Spending

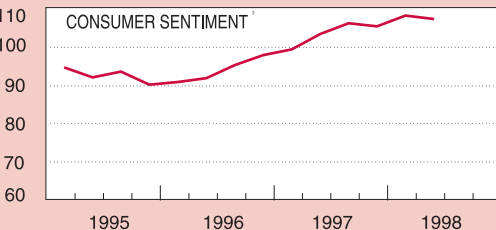
Percent change



Percent



Index



1. Disposable personal income in chained (1992) dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted.

Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center.

U.S. Department of Commerce, Bureau of Economic Analysis

4. Used autos in PCE is defined as consumer purchases of used autos from business, government, and foreigners less consumer sales of used autos to these sectors. PCE used autos has two components: Net transactions—consumer purchases less sales valued at wholesale prices—and dealers' margins, the difference between the retail and wholesale value of purchases by consumers from these sectors. The sum of the net transactions of all sectors is zero and does not affect total GDP; dealers' margins do affect total GDP.

PDE increased 18.1 percent in the second quarter after jumping 34.3 percent in the first. Most components contributed to the slowdown, but the largest contributions were from computers and peripheral equipment and from transportation and related equipment (except motor vehicles), primarily aircraft.

Structures decreased 1.6 percent after decreasing 4.9 percent. "Other" structures decreased less than in the first quarter, and utilities increased

more than in the first quarter. In contrast, nonresidential buildings turned down slightly, primarily reflecting a downturn in industrial structures.

Residential investment

Real residential investment increased 14.8 percent in the second quarter after increasing 15.6 percent in the first (table 3). The slowdown was more than accounted for by multifamily structures, which decreased after increasing, and single-

CHART 3

Housing Starts

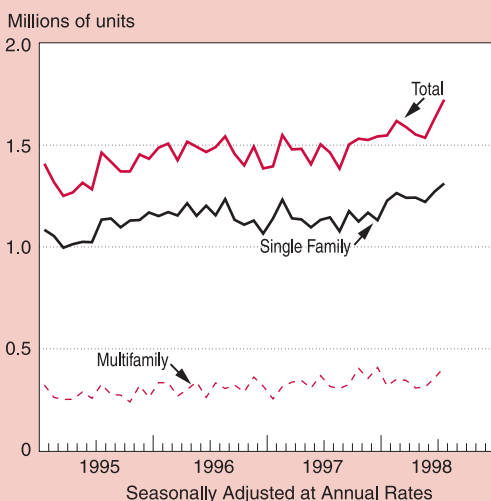


CHART 4

Selected Interest Rates

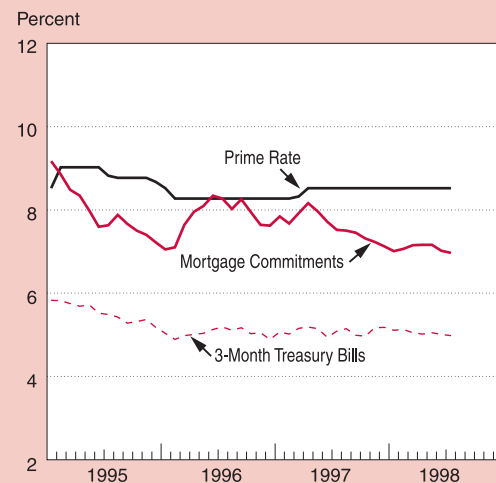


Table 3.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997		1998	
	1998	1997	1998						
	II	III	IV	I	II	III	IV	I	II
Gross private domestic fixed investment	1,263.5	32.3	10.2	55.4	38.6	12.0	3.6	20.4	13.2
Nonresidential	959.9	34.0	4.0	45.7	28.0	17.0	1.8	22.2	12.6
Structures	202.3	5.9	.5	-2.6	-.8	12.4	.9	-4.9	-1.6
Nonresidential buildings, including farm	149.9	4.2	-2.5	.6	-.2	11.9	-6.3	1.5	-.5
Utilities	29.7	.5	.1	0	.5	7.1	1.1	.9	6.2
Mining exploration, shafts, and wells	17.1	1.0	.3	-1.0	-.8	24.5	5.7	-18.7	-17.7
Other	5.5	.1	2.6	-2.2	-.1	12.7	401.0	-73.1	-9.1
Producers' durable equipment	770.2	28.8	3.8	52.4	31.4	18.8	2.2	34.3	18.1
Information processing and related equipment	376.2	23.4	9.2	32.7	22.8	36.7	12.4	47.5	28.3
Computers and peripheral equipment	331.1	26.0	13.0	49.3	38.9	61.7	24.6	109.2	65.0
Other	139.4	6.3	1.5	5.2	2.7	22.1	4.6	16.9	8.0
Industrial equipment	132.2	1.3	.9	2.9	.7	4.4	2.9	9.3	2.0
Transportation and related equipment	168.0	5.4	-2.1	15.8	8.4	16.3	-5.4	51.7	22.6
Of which: Motor vehicles	132.3	4.2	-.6	5.4	6.4	15.4	-1.9	19.1	21.9
Other	124.3	3.2	-1.5	6.1	4.1	12.1	-4.4	23.5	14.5
Residential	309.0	-.2	5.6	10.6	10.5	-.4	8.2	15.6	14.8
Single-family structures	151.0	-1.1	2.9	6.2	5.8	-3.3	9.1	19.1	16.9
Multifamily structures	20.8	-.8	1.5	1.1	-1.3	-14.8	31.9	24.7	-21.8
Other ¹	137.8	1.7	1.3	3.1	6.0	5.7	4.0	10.1	19.5

1. "Other" residential includes other residential structures and residential producers' durable equipment.

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

family structures, which increased less than in the first quarter; “other” residential investment increased more than in the first quarter.⁵

“Other” residential investment increased 19.5 percent after increasing 10.1 percent. A sharp acceleration in brokers’ commissions and an upswing in mobile homes more than offset a slight slowdown in residential improvements. The acceleration in brokers’ commissions reflected an acceleration in home sales. In the second-quarter, home sales increased 323,000 units (at a seasonally adjusted annual rate) to 5,767,000 units; the increase consisted of a 270,000-unit increase in sales of existing residences and a 53,000-unit increase in sales of new residences. The increase in home sales may have partly reflected a decrease in the commitment rate on 30-year fixed-rate mortgages to 7.10 percent from 7.20 percent (chart 3).

Inventory investment

Real inventory investment—that is, the change in business inventories—decreased \$52.3 billion in the second quarter, as inventory accumulation slowed to \$39.1 billion from \$91.4 billion (table 4). Inventory investment had increased in the first quarter, as accumulation picked up from \$66.5 billion in the fourth quarter of 1997.

Retail trade inventories decreased \$12.0 billion in the second quarter after increasing \$17.3 billion

in the first. Inventories of durable goods turned down, and inventories of nondurable goods increased less than in the first quarter. About two-thirds of the downturn in durable goods was accounted for by motor vehicles, which decreased more than in the first quarter; the larger second-quarter decrease may have partly resulted from the strike at a motor vehicle manufacturer. The slowdown in nondurable goods was widespread; all categories except apparel stores contributed.

Wholesale trade inventories increased \$10.0 billion after increasing \$27.0 billion. Durable goods held by merchant wholesalers more than accounted for the slowdown; inventories of motor vehicles and of professional and commercial equipment (which includes computers) turned down.

Manufacturing inventories increased \$24.3 billion after increasing \$30.2 billion. Nondurable and durable goods both contributed to the slowdown. In durable goods, inventories of electronic machinery decreased after increasing, and inventories of industrial machinery increased less than in the first quarter; these changes were partly offset by inventories of transportation equipment (except motor vehicles), which increased more than in the first quarter. In the nondurable goods industries, the largest slowdown was in chemicals.

Other nonfarm inventories increased less than in the first quarter.⁶

5. “Other” residential investment includes home improvements, new mobile home sales, brokers’ commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).

6. “Other” nonfarm inventories includes inventories held by the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

Table 4.—Real Change in Business Inventories

[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1997			1998		1997		1998	
	II	III	IV	I	II	III	IV	I	II
Change in business inventories	79.0	51.0	66.5	91.4	39.1	-28.0	15.5	24.9	-52.3
Farm	6.8	7.3	3.7	5.3	8.8	.5	-3.6	1.6	3.5
Nonfarm	72.1	44.0	62.7	85.9	30.7	-28.1	18.7	23.2	-55.2
Manufacturing	26.7	15.8	17.7	30.2	24.3	-10.9	1.9	12.5	-5.9
Durable goods	18.4	8.4	8.1	21.0	18.8	-10.0	-3	12.9	-2.2
Nondurable goods	8.4	7.4	9.5	9.2	5.6	-1.0	2.1	-3	-3.6
Wholesale trade	28.3	16.7	20.2	27.0	10.0	-11.6	3.5	6.8	-17.0
Durable goods	24.9	4.5	8.6	25.1	1.9	-20.4	4.1	16.5	-23.2
Nondurable goods	3.9	11.8	11.4	2.3	7.9	7.9	-4	-9.1	5.6
Retail trade	6.0	5.0	16.9	17.3	-12.0	-1.0	11.9	.4	-29.3
Durable goods	1.4	3.4	14.1	1.6	-17.2	2.0	10.7	-12.5	-18.8
of which: Motor vehicle dealers	-3.5	.7	10.5	-3.7	-14.7	4.2	9.8	-14.2	-11.0
Nondurable goods	4.7	1.6	2.5	16.1	5.8	-3.1	.9	13.6	-10.3
Other	11.1	6.5	8.1	11.5	8.4	-4.6	1.6	3.4	-3.1
Durable goods	1.9	2.3	1.2	.4	.7	.4	-1.1	-.8	.3
Nondurable goods	9.3	4.2	6.9	11.5	8.0	-5.1	2.7	4.6	-3.5
Addenda:									
Motor vehicles	2.0	.8	10.3	2.6	-22.3	-1.2	9.5	-7.7	-24.9
Autos	0	.5	4.2	-.1	-12.0	.5	3.7	-4.3	-11.9
Trucks	1.9	.4	5.9	2.5	-10.2	-1.5	5.5	-3.4	-12.7

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels for most series are in NIPA table 5.11; chained (1992) dollar levels for autos (new and used) and trucks (new only) are in NIPA tables 8.5 and 8.7.

Farm inventories increased \$8.8 billion after increasing \$5.3 billion. Crop inventories more than accounted for the step-up.

The ratio of real nonfarm inventories to real final sales of domestic businesses edged down to 2.27 in the second quarter from 2.28 in the first; the ratio remains somewhat above the midpoint of the range in which it has fluctuated over the past few years. A different ratio, in which final sales are limited to goods and structures, held steady at 4.04, somewhat below the midpoint of its range over the past few years.

Exports and imports

Real exports of goods and services fell 7.4 percent in the second quarter after decreasing 2.8 percent in the first (table 5). Real imports of goods and services increased 10.0 percent after jumping 15.7 percent.

Real exports of goods fell 11.7 percent after decreasing 3.4 percent; exports of both nonagricultural and agricultural goods decreased more than in the first quarter. The larger decrease in exports of nonagricultural goods largely reflected nonautomotive capital goods, which in turn reflected a downturn in civilian aircraft and engines; in addition, automotive vehicles, engines, and parts turned down.⁷

Exports of services increased 3.6 percent after decreasing 1.2 percent. The upturn was widespread, but the largest upturn was in "other private services," which includes financial, educational, and telecommunications services.

Real imports of goods increased 11.7 percent after jumping 17.0 percent; a slowdown in imports of nonpetroleum goods more than offset an acceleration in imports of petroleum and products.

7. Exports and imports of nonautomotive capital goods include both parts and equipment.

Table 5.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997		1998	
	1998	1997		1998		1997		1998	
	II	III	IV	I	II	III	IV	I	II
Exports of goods and services	972.9	24.5	10.7	-6.9	-19.0	10.6	4.4	-2.8	-7.4
Goods	725.6	21.5	14.3	-6.4	-22.9	12.5	7.9	-3.4	-11.7
Agricultural goods	47.4	1.0	3.6	-1.3	-3.5	8.7	32.8	-9.9	-24.3
Nonagricultural goods	682.4	20.7	10.1	-4.9	-19.1	12.9	5.9	-2.7	-10.5
Services	250.0	3.6	-2.5	-8	2.2	5.9	-4.0	-1.2	3.6
Imports of goods and services	1,219.2	35.3	17.3	42.6	28.8	13.5	6.3	15.7	10.0
Goods	1,049.5	29.3	15.1	39.2	28.5	13.1	6.4	17.0	11.7
Petroleum and products	75.2	1.0	-2.2	1.4	6.9	6.0	-12.2	8.8	46.9
Nonpetroleum products	974.7	28.4	17.6	37.7	22.5	13.7	8.1	17.6	9.8
Services	172.1	6.0	2.3	3.8	.8	15.8	5.8	9.3	1.8
Addendum: Net exports of goods and services	-246.3	-10.8	-6.6	49.5	-47.8				

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 4.4. Percent changes in major aggregates are in NIPA table 8.1.

Table 6.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997		1998	
	1998	1997		1998		1997		1998	
	II	III	IV	I	II	III	IV	I	II
Government consumption expenditures and gross investment	1,294.6	4.5	0.3	-6.2	11.6	1.4	0.1	-1.9	3.6
Federal	453.4	-1.5	-2.4	-10.4	7.3	-1.2	-2.1	-8.8	6.6
National defense	300.1	-1.5	-1.5	-15.4	6.8	-1.8	-2.0	-18.5	9.5
Consumption expenditures	266.1	-3.9	-2.3	-12.1	8.2	-5.4	-3.3	-16.8	13.3
Gross investment	33.8	2.5	.8	-3.3	-1.6	31.0	8.3	-29.9	-16.7
Nondefense	152.5	0	-.9	4.6	.6	-.1	-2.3	13.1	1.5
Consumption expenditures	132.9	-.5	.5	1.0	2.9	-1.6	1.4	3.3	9.0
Gross investment	19.5	.5	-1.5	4.1	-2.7	12.3	-27.9	128.0	-41.0
State and local	841.4	5.9	2.8	4.2	4.3	2.9	1.3	2.1	2.1
Consumption expenditures	687.4	4.6	3.8	4.3	4.6	2.8	2.3	2.5	2.7
Gross investment	153.9	1.3	-1.0	-1	-3	3.3	-2.6	0	-9

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 3.8B. Percent changes in major aggregates are in NIPA table 8.1.

Automotive vehicles, engines, and parts turned down; nonautomotive capital goods slowed, as a downturn in "other" capital goods and a slowdown in computers, peripherals, and parts more than offset an upturn in civilian aircraft, engines, and parts.

Imports of services increased 1.8 percent after increasing 9.3 percent. The slowdown was more than accounted for by a downturn in royalties and license fees, which had been boosted in the first quarter by payments for the Winter Olympics, and by a slowdown in travel.

Government spending

Real government consumption expenditures and gross investment increased 3.6 percent in the second quarter after decreasing 1.9 percent in the first (table 6). Federal Government spending turned up, and State and local government spending increased about the same in both quarters.

Federal defense spending increased 9.5 percent after falling 18.5 percent. Consumption expenditures turned up, largely reflecting spending for services other than compensation of employees, particularly research and development and personnel support. Investment spending decreased less in the second quarter than in the first.

Federal nondefense spending increased 1.5 percent after jumping 13.1 percent. Consumption expenditures increased more than in the first quarter, primarily reflecting an upswing in spending for services other than employee compensation. Investment spending decreased after increasing; both equipment and structures contributed to the downturn.

State and local government spending increased 2.1 percent, the same as in the first quarter. Consumption spending increased slightly more than in the first quarter. Investment spending decreased slightly after changing little; structures decreased more than in the first quarter, and equipment increased less.

Revisions

As noted earlier, the preliminary estimate of a 1.6-percent increase in real GDP in the second quarter is 0.2 percentage point higher than the advance estimate (table 7); for 1978–97, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point. The largest revisions to components of GDP were to imports and to inventory investment.

The downward revision to imports primarily reflected the incorporation of newly available Census Bureau data for imports of goods for June, which decreased more than BEA had assumed for the "advance" estimate.

The downward revision to inventory investment primarily reflected the incorporation of newly available Census Bureau inventory data for June, which increased more than BEA had assumed for the "advance" estimate.

Within PCE, the revisions were largely offsetting. A downward revision to PCE nondurable goods was mostly to food and primarily reflected the incorporation of revised Census Bureau retail trade data for May and June. An upward revision

**Table 7.—Revisions to Real Gross Domestic Product and Prices,
Second Quarter 1998**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percent- age points	Billions of chained (1992) dollars
Gross domestic product	1.4	1.6	0.2	3.9
Less: Exports of goods and services	-8.0	-7.4	.6	1.6
Goods	-12.3	-11.7	.6	1.3
Services	3.2	3.6	.4	.2
Plus: Imports of goods and services	11.9	10.0	-1.9	-5.0
Goods	14.1	11.7	-2.4	-5.8
Services .....	.7	1.8	1.1	.5
Equals: Gross domestic purchases	3.8	3.8	0	-1.6
Personal consumption expenditures	5.8	5.8	0	.8
Durable goods	10.0	11.1	1.1	1.7
Nondurable goods	5.9	5.0	-.9	-3.4
Services	4.8	5.2	.4	2.4
Fixed investment	11.9	13.2	1.3	3.5
Nonresidential	11.4	12.6	1.2	2.4
Structures	-4.5	-1.6	2.9	1.5
Producers' durable equipment	17.8	18.1	.3	.5
Residential	13.2	14.8	1.6	1.1
Change in business inventories .....	.....	.....	.....	-5.6
Nonfarm .....	.....	.....	.....	-5.9
Farm .....	.....	.....	.....	.4
Government consumption expenditures and gross investment	3.7	3.6	-.1	-.2
Federal	7.0	6.6	-.4	-.4
National defense	9.4	9.5	.1	.1
Nondefense	2.8	1.5	-1.3	-.5
State and local	2.0	2.1	.1	.2
Addenda:				
Final sales of domestic product	3.9	4.4	.5	9.4
Gross domestic purchases price index ¹ .....	.4	.4	0	.....
GDP price index ¹ .....	.8	.8	0	.....

1. Based on chained-type annual (1992) weights.

NOTE.—The preliminary estimates for the second quarter of 1998 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for May and June (revised), consumers' share of new-car purchases for June, average unit value for domestic new autos for June (revised), consumers' share of new-truck purchases for June, and residential electricity usage for April.

Nonresidential fixed investment: Construction put in place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), and exports and imports of machinery and equipment for May (revised) and June.

Residential fixed investment: Construction put in place for April and May (revised) and June.

Change in business inventories: Manufacturing inventories for May (revised) and June; and retail trade and wholesale trade inventories for May (revised) and June.

Exports and imports of goods and services: Exports and imports of goods for May (revised) and June.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for June, Department of Defense detailed financial reports for the quarter, and State and local government construction put in place for April and May (revised) and June.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for May and June (revised).

GDP prices: Detailed merchandise export and import price indexes for April through June (revised), unit-value index for petroleum imports for June, and housing prices for the second quarter.

sion to PCE services was more than accounted for by brokerage and investment counseling and reflected the incorporation of newly available data from the Security and Exchange Commission and from private sources for May and June.

The preliminary estimates of the increases in the price indexes for gross domestic purchases and for GDP were 0.4 percent and 0.8 percent, respectively, the same as the advance estimates.

The preliminary estimate of the increase in real disposable personal income (DPI) was 2.9 percent, the same as the advance estimate. Current-dollar personal income and current-dollar DPI were revised down slightly, and personal tax and nontax payments was revised very little. The preliminary estimate of the personal saving rate—personal savings as a percentage of current-dollar DPI—was 0.6 percent, the same as the advance estimate.

Corporate Profits

Profits from current production decreased \$9.5 billion in the second quarter of 1998 after increasing \$8.4 billion in the first (table 8).⁸ In the second quarter, profits of domestic nonfinancial corporations decreased \$11.3 billion after no change, as a decrease in unit profits more than offset an increase in real product; the decrease in unit profits, in turn, resulted from an increase in unit costs while unit prices were unchanged. Profits of domestic financial corporations increased \$1.8 billion, the same as in the first quarter. Profits from the rest of the world were unchanged after increasing \$6.6 billion; small decreases in receipts and payments were offsetting.⁹

Cash flow from current production, a profits-related measure of internally generated funds available for investment, decreased \$5.1 billion after jumping \$21.9 billion. The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased for the fourth consecutive quarter (and for the ninth time in the last 11 quarters), to 84.9

percent from 87.3 percent.¹⁰ The ratio, which averaged 91.9 percent in 1991–97, was last below 85 percent in the fourth quarter of 1990.

Industry profits and related measures.—Industry profits decreased \$14.0 billion after increasing \$3.6 billion.¹¹ Profits of domestic nonfinancial corporations decreased more than in the first quarter, reflecting weakness in most of the non-manufacturing industries, and profits of domestic financial corporations increased a little less than in the first quarter. Profits from the rest of the world were unchanged.

Profits before tax (PBT) increased \$1.4 billion after falling \$17.3 billion. The difference between the \$1.4 billion increase in PBT and the \$9.5 billion decrease in profits from current production was

10. Last month's annual revision of the NIPA's included a redefinition of dividend payments; see "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1995–97, and Quarterly Estimates, 1995:I–1998:I," SURVEY OF CURRENT BUSINESS 78 (August 1998): 29. This redefinition raised undistributed corporate profits (calculated as profits after tax less dividends), which are a major component of cash flow. Accordingly, cash flow was raised, as was the ratio of cash flow to nonresidential fixed investment. Prior to the annual revision, the ratio's level in the first quarter of 1998 was 80.1 percent, and its average for 1991–97 was 85.5 percent.

11. Industry profits, which are estimated as the sum of corporate profits before tax and the inventory valuation adjustment, are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment are available only for total financial and total nonfinancial industries.

Table 8.—Corporate Profits

(Seasonally adjusted at annual rates)

	Level		Change from preceding quarter			
	1998		1997		1998	
	II	III	IV	I	II	
Billions of dollars						
Profits from current production	819.7	25.4	-20.1	8.4	-9.5	
Domestic industries	721.1	28.4	-9.8	1.8	-9.5	
Financial	133.1	-2	6.2	1.8	1.8	
Nonfinancial	588.0	28.5	-15.9	0	-11.3	
Rest of the world	98.6	-3.1	-10.3	6.6	0	
Receipts (inflows)	146.0	3.9	-14.7	3.6	-1	
Payments (outflows)	47.3	6.9	-4.2	-3.1	-2	
IVA	9.8	-5.5	-5	21.0	-15.5	
CCAAdj	89.4	1.7	2.9	4.8	4.5	
Profits before tax	720.5	29.1	-22.5	-17.3	1.4	
Profits tax liability	240.0	12.3	-4.9	-9.4	.1	
Profits after tax	480.5	16.9	-17.6	-7.9	1.3	
Cash flow from current production	799.4	19.7	-9.7	21.9	-5.1	
Corporate profits with IVA	730.3	23.6	-23.0	3.6	-14.0	
Domestic industries	631.7	26.7	-12.7	-2.9	-14.1	
Financial	137.4	-1	6.1	1.6	1.1	
Nonfinancial	494.3	26.8	-18.8	-4.6	-15.1	
Rest of the world	98.6	-3.1	-10.3	6.6	0	
Dollars						
Unit price, costs, and profits of nonfinancial corporations:						
Unit price	1.061	0	0	-0.002	0	
Unit labor cost .....	.700	-.003	.007	.002	.003	
Unit nonlabor cost .....	.227	-.002	-.001	-.001	.001	
Unit profits from current production	.135	.004	-.006	-.002	-.004	

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.18C, and 7.15.

IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

8. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (which are part of the "Selected NIPA Tables," which begin on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

9. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates are derived from BEA's international transactions accounts.

more than accounted for by smaller inventory losses, as reflected in a \$15.5 billion decrease in the inventory valuation adjustment.¹²

Government Sector

The current surplus of the Federal Government and of State and local governments, a NIPA measure of net saving by government, grew \$8.4 billion, to \$207.4 billion, in the second quarter after increasing \$55.4 billion in the first (table 9).¹³ The deceleration was almost entirely accounted for by a deceleration in the Federal Government current surplus. The State and local government current surplus decreased more in the second quarter than in the first.¹⁴

Federal

The Federal Government current surplus increased \$13.8 billion, to \$72.6 billion, in the second quarter after increasing \$56.6 billion in the first; the fiscal position of the Federal Government shifted from a current deficit to a surplus in the fourth quarter of 1997. The deceleration resulted from an upturn in current expenditures and from a deceleration in receipts.

Receipts.—Federal receipts increased \$27.8 billion in the second quarter after increasing \$43.6 billion in the first. The deceleration was more than accounted for by decelerations in personal tax and nontax receipts and in contributions for social insurance. These decelerations were tempered by corporate profits tax accruals, which were unchanged after decreasing \$8.0 billion.

Personal tax and nontax receipts increased \$19.2 billion after increasing \$37.9 billion. The deceleration was more than accounted for by “estimated income tax payments and final settlements, less refunds,” which increased \$3.7 billion after increasing \$25.5 billion.¹⁵ In contrast, with-

held income taxes and net estate and gift taxes accelerated.

Contributions for social insurance increased \$7.3 billion after increasing \$13.6 billion. The deceleration was mostly attributable to contributions for social security (old-age, survivors, disability, and health insurance), which increased \$7.1 billion after increasing \$12.8 billion, partly reflecting a slowdown in wages and salaries; in addition, contributions in the first quarter had been boosted by an increase in the social security taxable wage base.

Table 9.—Government Sector Receipts and Current Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter					
	1998	1997				1998	
	II	II	III	IV	I	II	
Receipts	2,737.7	39.3	51.1	34.3	53.3	34.1	
Current expenditures	2,530.3	21.2	10.2	26.9	-2.1	25.7	
Current surplus or deficit(-)	207.4	18.1	40.9	7.4	55.4	8.4	
Social insurance funds	158.3	5.8	5.6	7.7	3.5	6.3	
Other	49.1	12.3	35.3	-3	51.9	2.1	
Federal Government							
Receipts	1,836.9	32.5	36.0	25.9	43.6	27.8	
Personal tax and nontax receipts	855.7	17.4	17.8	21.7	37.9	19.2	
Corporate profits tax accruals	204.8	2.6	10.5	-4.2	-8.0	0	
Indirect business tax and nontax accruals	95.2	4.8	-4	-1.3	.1	1.3	
Contributions for social insurance	681.2	7.6	8.2	9.7	13.6	7.3	
Current expenditures	1,764.3	16.1	1.5	23.5	-13.1	14.0	
Consumption expenditures	463.8	8.0	-4.8	.1	-9.2	12.9	
National defense	303.0	6.6	-4.4	-1.2	-11.5	9.7	
Nondefense	160.9	1.4	-4	1.3	2.3	3.3	
Transfer payments (net)	811.3	3.7	4.1	14.7	2.6	2.8	
To persons	802.1	3.4	3.9	3.2	14.2	3.5	
To the rest of the world	9.2	.4	0	11.6	-11.6	-7	
Grants-in-aid to State and local governments	226.9	2.5	1.2	7.4	-3.1	-1.8	
Net interest paid	228.7	2.2	.3	-1	-3.0	-1	
Subsidies less current surplus of government enterprises	33.5	-4	.9	1.2	-3	.1	
Subsidies	31.0	-2	-4	-5	-9	-5	
Of which: Agricultural subsidies	7.7	0	0	-1	-2	-1	
Less: Current surplus of government enterprises	-2.5	.2	-1.3	-1.8	-5	-6	
Less: Wage accruals less disbursements	0	0	0	0	0	0	
Current surplus or deficit (-)	72.6	16.4	34.5	2.5	56.6	13.8	
Social insurance funds	90.6	5.9	6.2	8.0	3.6	6.1	
Other	-18.0	10.5	28.2	-5.4	53.0	7.7	
State and local governments							
Receipts	1,127.7	9.3	16.3	15.7	6.8	4.4	
Personal tax and nontax receipts	231.7	2.8	5.4	4.8	3.5	1.3	
Corporate profits tax accruals	35.2	.5	1.9	-8	-1.4	.1	
Indirect business tax and nontax accruals	552.2	3.0	7.4	3.8	7.3	4.2	
Contributions for social insurance	81.7	.5	.5	.4	.5	.6	
Federal grants-in-aid	226.9	2.5	1.2	7.4	-3.1	-1.8	
Current expenditures	992.9	7.6	9.9	10.8	7.9	9.9	
Consumption expenditures	784.3	6.8	8.2	9.3	5.2	7.6	
Transfer payments to persons	316.4	2.8	3.0	3.1	4.0	3.8	
Net interest paid	-82.1	-1.7	-1.5	-1.3	-1.2	-1.4	
Less: Dividends received by government	16.0	.3	.1	.4	.5	.3	
Subsidies less current surplus of government enterprises	-9.7	.1	.1	.2	.4	.2	
Subsidies .....	.4	0	0	0	0	0	
Less: Current surplus of government enterprises	10.0	-1	-1	-2	-4	-3	
Less: Wage accruals less disbursements	0	0	0	0	0	0	
Current surplus or deficit (-)	134.8	1.7	6.5	4.8	-1.2	-5.4	
Social insurance funds	67.7	-1	-6	-3	-1	.2	
Other	67.1	1.8	7.1	5.1	-1.1	-5.6	

NOTE.—Levels of these series are in NIPA tables 3.1–3.3.

12. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are shown as adjustments to business income (corporate profits and proprietors' income). Inventory profits are shown as the inventory valuation adjustment with the sign reversed.

13. Net saving equals gross saving less consumption of fixed capital (CFC). Estimates of government gross saving, CFC, and net saving are shown in NIPA table 5.1.

14. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments but differ from them in several respects. The major differences are shown in NIPA tables 3.18B and 3.19, which reconcile the NIPA estimates with government financial statements; tables that reflect the latest annual NIPA revision will be published in the October 1998 SURVEY OF CURRENT BUSINESS.

15. For information on recent changes in the methodology for “estimated income tax payments and final settlements, less refunds,” see “Annual Revision of the National Income and Product Accounts,” SURVEY 78 (August 1998): 29–31.

Current expenditures.—Current expenditures increased \$14.0 billion in the second quarter after decreasing \$13.1 billion in the first.¹⁶ The upswing was more than accounted for by an upturn in consumption expenditures and by smaller decreases in net interest paid and in grants-in-aid to State and local governments in the second quarter than in the first.

Consumption expenditures increased \$12.9 billion—the largest increase since the fourth quarter of 1990—after decreasing \$9.2 billion. The upturn was mostly accounted for by defense consumption expenditures, which increased \$9.7 billion after decreasing \$11.5 billion; the turnaround was more than accounted for by an upturn in services, such as research and development and personnel support services. The upturn in these services was partly offset by a downturn in compensation of employees, reflecting further decreases in defense employment; in addition, employee compensation in the first quarter had been boosted by military and civilian pay raises that went into effect in January. Nondefense consumption expenditures increased \$3.3 billion after increasing \$2.3 billion. The acceleration was accounted for by a step-up in services; within services, research and development expenditures turned up.

Net interest paid decreased \$0.1 billion after decreasing \$3.0 billion. Both decreases were mostly attributable to gross interest paid, which decreased \$0.1 billion after decreasing \$3.1 billion.

Transfer payments (net) increased \$2.8 billion after increasing \$2.6 billion. Transfer payments to the rest of the world decreased \$0.7 billion after decreasing \$11.6 billion in the first quarter; the first-quarter decrease had followed a large fourth-quarter increase that included a payment to Israel of \$3.0 billion—\$12.0 billion at an annual rate—in economic support and other payments. Transfer payments to persons increased \$3.5 billion after increasing \$14.2 billion. Most of the deceleration was accounted for by social security (old-age, survivors, and disability insurance), Federal employee pensions, and veterans pension benefits. The first-quarter increases in these

programs reflected a 2.1-percent cost-of-living adjustment that went into effect in January. In addition, the first-quarter growth in transfer payments to persons was boosted by a \$1.6 billion increase in earned income tax credits.


Grants-in-aid to State and local governments decreased \$1.8 billion after decreasing \$3.1 billion. Grants for medicaid and other programs turned up, while grants for family assistance and education turned down.

State and local

The State and local government current surplus decreased \$5.4 billion, to \$134.8 billion, in the second quarter after decreasing \$1.2 billion in the first. The larger decrease was accounted for by a deceleration in receipts and an acceleration in current expenditures.

Receipts increased \$4.4 billion after increasing \$6.8 billion. The deceleration was more than accounted for by decelerations in indirect business tax and nontax accruals and in personal tax and nontax receipts. These decelerations were partly offset by a turnaround in corporate profits tax accruals and by a smaller decrease in Federal grants-in-aid in the second quarter than in the first.

Indirect business tax and nontax accruals increased \$4.2 billion after increasing \$7.3 billion. The deceleration was mostly accounted for by a downturn in “other tax and nontax accruals”; in the first quarter, these accruals had been boosted \$1.4 billion by payments from tobacco companies for out-of-court settlements with three States. Personal tax and nontax receipts increased \$1.3 billion after increasing \$3.5 billion; the deceleration was largely attributable to tax law changes in several States that reduced withholdings and raised refunds.

Current expenditures increased \$9.9 billion after increasing \$7.9 billion; the acceleration was more than accounted for by a pickup in consumption expenditures. Consumption expenditures increased \$7.6 billion after increasing \$5.2 billion, reflecting an upturn in nondurable goods. Within nondurable goods, expenditures for petroleum decreased less in the second quarter than in the first. 

16. For information on the definition of current expenditures as well as of other major NIPA components, see “A Guide to the NIPAs,” SURVEY 78 (March 1998): 26–68.